

The new financial perspective of the EU

WE REALISE THAT LOOSENING THE GRIP OF CONSERVATIVE OPINIONS ON THE FORM OF THE EU BUDGET WILL BE A COMPLEX AND DRAWN-OUT PROCESS.



AN INTERVIEW WITH IVAN PILIP, VICE-PRESIDENT OF THE EIB
FINANCE FROM THE EU AND CZECH COMPANIES
REALITIES OF FREE MOVEMENT OF WORKERS

An interview with Mr Ivan Pilip



about the activities of the European Investment Bank in the Czech Republic and its new initiatives

By the nature of its activities the EIB supports the political priorities of the European Union. The EU is at present laying emphasis on fulfilling the Lisbon Strategy, support for small and medium sized enterprises, an increase in expenditure on research, development and innovation, and the development of a knowledge economy. How will this manifest itself in concrete terms in the strategy of the European Investment Bank in the period 2007-2013?

The European Investment Bank is the financial institution of the European Union which contributes to meeting the objectives of the European Union by means of the long-term financing of investment projects. In order to support the Lisbon Strategy the bank wants to increase the share of loans for projects which contribute to the creation and utilisation of innovations, i.e. in education, science and research, and also in investment supporting the introduction of new production technology and a modern telecommunication infrastructure. Given the character of the EIB it is no easy matter identifying such projects. The bank provides direct loans only to projects with total costs exceeding EUR 25 million, which in practice means financing the projects of larger, usually supranational companies.

The bank finances the projects of small and medium-sized enterprises mainly by means of the European Investment Fund (EIF), which, along with the bank, forms the EIB Group. The EIF allows smaller enterprises access to risk capital and provides them with guarantees and technical assistance which corresponds to the character of projects in the sphere of the creation of innovations and their introduction into practice.

When will the new member countries of the EU, including the Czech Republic, be in a position to avail themselves of the services of the EIB? What volume of resources has the EIB thus far provided the CR and what sectors have these resources been primarily aimed at?

The EIB has been active in the Czech Republic, as well as other countries in the region, since 1990. As of right now the bank has provided around EUR 34 billion to new member countries and also to Bulgaria and Romania. In the CR the total volume of loans is something around EUR 6.7 billion. Almost EUR 3 billion (43% of the total) has gone into the transport infrastructure, some into financing of foreign investments (EUR 1.2 billion), followed by investment in the environment and the development of the regions, healthcare and education.

Are Czech entrepreneurs in a position to utilise the financing offered by the EIB? What share do entrepreneurial subjects have of the overall credit provided by the EIB? What are the framework conditions of credit provided by the EIB to these subjects?

Czech companies are mostly involved in projects whose total costs are less than EUR 20 million. Given the minimum level of credit I have already referred to, a direct loan to a Czech company tends to be the exception. However, the bank supports smaller projects indirectly by means of banks operating in the individual countries. The network of these partner banks is constantly expanding and at present includes almost all the larger banks of the CR. These banks know the Czech market, they have an extensive network of branches, and entrepreneurs are included amongst their clients. The EIB also provides loans at its own risk and stipulates conditions which depend on the character of the project and the client. So far the EIB has provided banks in the CR a total of around EUR 650 million for the support of smaller projects.

NEW BUILDING OF THE EUROPEAN INVESTMENT BANK IN LUXEMBURG DUE TO BE COMPLETED IN MID 2007



At the end of last year the European Commission, along with the EIB and other partners, introduced two initiatives - JASPERS and JEREMIE. The first of these was intended to help with the preparation of large projects for financing from structural funds and the Cohesion Fund, the second is to facilitate access to capital for small and medium-sized companies. How will these initiatives operate in practice and how can the corporate sector use them for the purposes of continued development?

The aim of the JASPERS initiative is to draw on the many years' experience of the EIB and EBRD in supporting projects financed from European funds. The projects in question must be submitted to the individual ministries, which operate as the coordinating bodies of these funds.

These then submit individual applications to the JASPERS team. Taking up the offer of this assistance, which will be provided free, will be no guarantee of the Commission approving the projects, nor will it be linked with any obligation to take out a loan from the EIB or EBRD. I see space for private companies above all in utilisation of financing in the form of a public private partnership (PPP). EIB has considerable experience with PPP and can also provide this know-how to project preparation.

JEREMIE is a joint initiative of the European Commission, the EIB and EBRD. It will be implemented by the European Investment Fund and its aim will be to support SMEs, especially start-ups and micro-enterprises, using technical assistance, grants, loans, risk capital and guarantees. It will begin its operations in 2007 and at present the requisite infrastructure is being created for this purpose.

Thank you for the interview

Blanka Jakubcová, CEBRE - Czech Business Representation

"IN THE INTERESTS OF SUPPORTING THE LISBON STRATEGY THE EIB WANTS TO INCREASE THE SHARE OF LOANS FOR PROJECTS WHICH CONTRIBUTE TO THE CREATION AND UTILISATION OF INNOVATIONS, I.E. IN EDUCATION, SCIENCE AND RESEARCH, AND ALSO IN INVESTMENT SUPPORTING THE INTRODUCTION OF NEW PRODUCTION TECHNOLOGY AND MODERN TELECOMMUNICATION INFRASTRUCTURE."



The impact of the transition periods on the free movement of workers

AS THE REPORT OF THE EUROPEAN COMMISSION OF FEBRUARY 2006 SHOWED, THE MOBILITY OF WORKERS FROM NEW MEMBER COUNTRIES HAS HAD A POSITIVE EFFECT. THE INFLUX OF WORKERS FROM NEW COUNTRIES TOOK PLACE TO A FAR LESSER EXTENT THAN ORIGINALLY ANTICIPATED.

Commission report

Despite the fact that the twelve old members introduced a transition period, workers from the EU-10 had the possibility of legally working in these countries on condition that they acquired work permits. In these cases their integration into the jobs market went smoothly according to the report. Of course there are the downsides, e.g. black market work or work carried out falsely on the basis of a trade licence. However, overall the number of employees in the old countries arriving in from the EU-10 can be considered negligible.

The statistics submitted by individual member countries show that in most countries there was not the expected impact of workers from the east. The expansion of the Union resulted neither in a growth in the number of workers nor in increases in social benefits.

Citizens of the new member states represent less than 1 % of the population of an economically active age in all countries apart from Austria (1.4% in 2005) and Ireland (3.8% in 2005).

The report shows that supply and demand have more impact on the movement of workers in the EU than the administrative transition period.

With the deadline approaching by which the old member countries must announce whether they intend extending the transition period by a further three years, the European Commission is attempting to persuade old Europe to open the job markets. Commissioner Vladimír Špidla is playing a central role in this attempt.

Tereza Hořejšová,
EurActiv.cz

The opinion of the Economic Chamber of the Czech Republic regarding the transition period applying to the free movement of workers within the EU

"The Economic Chamber of the Czech Republic is doing everything in its power to ensure that the transition period is cancelled. Two year's experience has shown that there are no solid grounds for prolonging the period. Job quotas have not been met, and the transition period entails an unnecessary administrative and financial burden for Czech companies. The problem afflicts the construction industry and the service industry most of all.

If the transition period restricting the possibility of Czech people availing themselves of the job market in certain of the older EU member countries is prolonged, we shall demand that a review be carried out under the terms of the Treaty on Accession, since for Czech companies the transition period represents a competitive disadvantage. The Economic Chamber of the Czech Republic insists that these disadvantages be removed." Jaromír Drábek, president of the Economic Chamber of the CR.

Viktorie Plívová,
Spokesperson of the
Economic Chamber of the Czech Republic

The impact of the free jobs market on Great Britain, Sweden and Ireland



SHOULD NEW MEMBER STATES BE AFRAID OF A BRAIN DRAIN?

Great Britain, Sweden and Ireland are the only countries of the EU-15 which decided to open their job markets up to citizens of the new member countries. Fears of increased unemployment and social security tourism led the other countries to agree on a transition period, which is applied according to the model 2 + 3 + 2 (the situation is re-evaluated after two or three years). The first part of the transition period is approaching the end and several countries (Finland, Spain, etc.) are giving consideration to opening their job markets. They are being assisted in their decision by reference to the experience of Britain, Ireland and Sweden, and by what the European Commission and several non-governmental organisations are telling them, namely, that their initial fears have proved groundless.

In the case of Britain the anticipated flood of workers from the new member states did not materialise. Most job applicants came from Poland (with 56%) and Lithuania (15%). Only 7% of job applicants came from the Czech Republic (information relating to the referential period May 2004 - March 2005). In all, 175,000 workers from the new member countries travelled to Britain in this period. What is at first sight a high-sounding figure in fact represents only 0.4 % of the economically active population of the United Kingdom.

Britain got the most out of its new workers - the European Citizen Action Service (ECAS) report estimates a net income of around GBP 500 million over twelve months. Only a negligible percent of job applicants applied for social security. The migrants helped fill positions which Brits either had no interest in or where there was insufficient number of qualified workers (e.g. dentistry).

Ireland, too, did not record a significant increase in job applicants from the new member countries. In comparison with the other members states where (with the exception of Austria) the share of workers from the EU-10 did not exceed 1 % of the economically active population, the same figure in Ireland was 3.8%. Relatively speaking Ireland took the brunt of the migration of wor-

kers from the new member countries. However, the report states that this contributed to the country's good economic results.

In comparison with Britain and Sweden the Irish situation differs in that there were already many workers from the new member countries in the country prior to expansion (mainly from Poland and Lithuania). From May 2004 to July 2005 85,000 workers from the new member countries moved to Ireland.

Not even Sweden recorded a flood of social security tourism in the wake of expansion. Though there had been fears of this prior to expansion, the anticipated flood of people from the new countries did not take place. Over the last year the Swedish social system provided workers from the new member countries support of only EUR 18,000.

The report by the Swedish Committee for Migration suggests an increase of 70% in the number of applications for jobs from countries of the European Economic Area. However, this is the equivalent of only 21,800 applications. As in the case of Britain and Ireland, the workers most represented were from Poland (60%), followed by Lithuania and Estonia.

According to the report by the Brussels association ECAS the number of applicants from the new members countries was not even 1% of the total workforce. "The prophets of doom were wrong. There was no exodus of a cheap workforce from Eastern Europe and those countries which refrained from hysteria made the most of the opening of the jobs market," said the head of the ECAS, Tony Venables, of the results of the study. The countries which did not opt for the transition period enjoyed high economic growth, a drop in unemployment and an increased employment.

Tereza Hořejšová,
EurActiv.cz



The form of the new financial perspective of the EU



THE ATTEMPT TO INCLUDE IN THE NEW FINANCIAL PERSPECTIVE 2007 - 2013 PROGRESSIVE ELEMENTS SUPPORTING THE GLOBAL COMPETITIVENESS OF THE EU IS MOST CLEAR IN ITS FIRST SUB-SECTION 1A. IF WE COMPARE ITS VOLUME WITH THE OVERALL VOLUME OF RESOURCES IN THE SECTION "SUSTAINABLE DEVELOPMENT", WE REALISE THAT LOOSENING THE GRIP OF CONSERVATIVE OPINIONS ON THE FORM OF THE EU BUDGET WILL BE A COMPLEX AND DRAWN-OUT PROCESS.

On the other hand there is hope that in individual years this amount will grow relatively fast and at the end of the period will have increased by approximately 50% on its initial level. Within its framework there exists space for the application of the new Lisbon objectives in the sphere of research and technological development; the connecting up of Europe via networks (transport, communication, etc.); education and professional training; support for competitiveness on the evermore integrated single internal market (especially in the sphere of services and workforce); and social policy. The priority spheres will be the continued expansion of the trans-European transport network and support for research projects outside the sphere of the structural funds. In this respect the 7th framework programme for research and development and its application in business structures will be a great challenge. Further cooperation with the products of the European Investment Bank is anticipated. And finally, an interesting and perhaps controversial output is the establishment of the Global Adaptation Fund, as a kind of sop to EU conservatives for concessions made during the process of reinforcing the integration of the single market.

The most substantial part of expenses in the section "sustainable development" goes to the benefit of structural and cohesion policy, i.e. sub-section 1b.; during the course of the New Financial perspective, more precisely beginning in 2008, we will clearly experience within the context of EU integration a breakthrough - the volume of expenditure on the structural and cohesion policy will for the first time exceed expenditure on agriculture (section 2), and the gap between the two sections is set to widen over time to the disadvantage of agriculture.

On the income side of the New Financial Perspective it is crucial to attain a very delicate balance consisting above all in the continued readiness of the rich to continue to finance the EU budget and to continue in the position of net contributors. For this reason it was necessary to attain a certain ceiling or other adequate measures in the case of the contributions of the net contributors, specifically Germany, Austria, Holland, Sweden, and Great Britain.

Conclusions and specific challenges for the Czech Republic

It would clearly be an illusion to suppose that over a period of several months' reflection the EU budget and its structure will change fundamentally and that the items which have been financed from it for years will disappear to the benefit of other items. However, it can be claimed at present that a discussion has been initiated which is opening the space for a further gradual reduction in the weight of items which do not contribute to the competitiveness of the

EU to the benefit of those which do. The development of items in the framework of the first section shows that a healthy direction has been selected.

From the point of view of the Czech Republic it is a good thing that the budget was approved at this time. On the one hand it is commendable to wait until the detailed structure of the budget meets the requirements of the beginning of the 21st century, though during this wait there is the danger of the train leaving without us. The train which basically represents the first real chance (and quite possibly the last) to acquire the maximum from the EU funds to our benefit. And if the well-meaning discussion on the justification of each individual budgetary item was prolonged during the course of 2006, there would be less time remaining to meet the no small number of domestic tasks which await us in this respect.

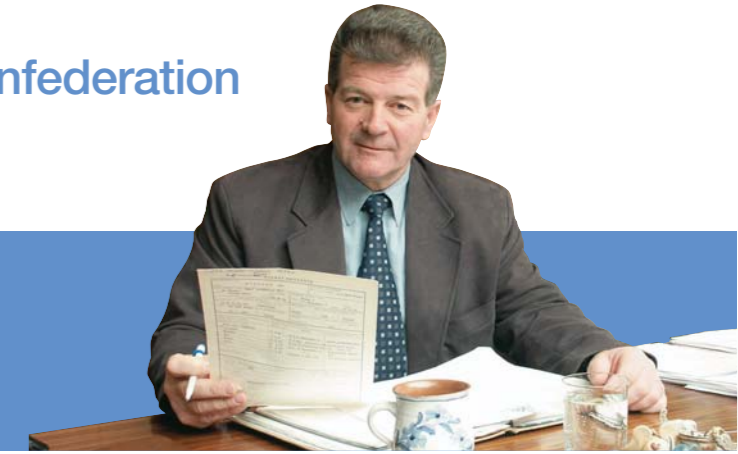
These include the qualitative completion of preparations for the National Development Plan and the National Strategic Reference Framework. Sufficient time is required for the qualitative preparation of a new set of Operating Programmes. These will undergo a significant change in that in the next period they will offer a higher level of autonomy to the regions, which will be able to plan their own regional priorities more efficiently. What's more, the project organisers should be informed in more detail and more intelligibly of the possibilities of financing from EU sources on offer and administrative procedures should be simpler. The Operating Programmes and the associated calls should be announced without undue delay. Moreover, public and private sources of co-financing should be made available, since EU funds only cover entire project costs in a small minority of cases. Only if these tasks are carried out satisfactorily will the debate on the New Financial Perspective 2007 - 2013 under the conditions of the Czech Republic become meaningful.

Petr Zahradnik, EU Office of Česká spořitelna



The Election of the chairman of the Confederation of Employers' and Entrepreneurs' Associations of the Czech Republic

Mr Jan Wiesner has been elected chairman of the Confederation of Employers' and Entrepreneurs' Associations of the Czech Republic for the second time in a row. Mr Wiesner represents the Cooperative Association of the CR, which is the national cooperative headquarters representing the Bohemian and Moravian cooperative movement at home and abroad, and the Union of Czech Production Cooperatives.



JAN WIESNER
CONFEDERATION OF EMPLOYERS' AND ENTREPRENEURS' ASSOCIATIONS OF THE CZECH REPUBLIC

An objective and attractive guide to EU programmes



CZECH ENTREPRENEURS EAGERLY LISTENING TO HOW TO GET GRIPS OF EU FUNDING.

Acquiring a grant from the European Union is the dream of many a businessperson. Assistance with making this dream come true was the objective CEBRE set itself in autumn of last year by means of a project supported by the Office of the Government of

the Czech Republic. Explaining to companies what the frequently unclear phrase "EU programmes and funds" actually means, and above all familiarising them with the concrete opportunities offered them by such programmes was the purpose of the project entitled VPRED (The Way Forward or We Use Opportunities Effectively and Thoroughly). The aim was not just to explain current European programmes available to Czech companies, but also to acquaint them with the next wave of programmes in the pipeline, implementation of which is set to start in 2007.

Companies with an interest in the topic were able to participate at one of two large conferences held at the beginning of December in Prague and Brno. The conference agendas were compiled in such a way that participants were able to acquire an overview of EU grant policy and to receive concrete, practical information about the more interesting opportunities on offer. The conferences focused on three important spheres of EU support: structural funds after 2006, the framework programmes for research and development, and the programmes involving the developmental cooperation of the EU with third countries. In contrast to similar seminars participants were able consult directly with the specialists responsible for the appropriate funds in

the Czech Republic regarding their potential project plans. The conference speakers were those people with direct responsibility for the preparation, implementation and technical support of these programmes in the CR. The result was firsthand information and the opportunity for companies to explain to the people concerned just what they expected from their work in the future.

The most extensive activity of the project was compilation of a brochure entitled "European Programmes for Research and Development - Inspiration for Business", which CEBRE prepared in cooperation with the Czech Liaison Office for Research and Development in Brussels (CZELO). Unfortunately the Czech Republic is amongst those countries with the lowest level of participation in the 6th framework programme, which is the most extensive support mechanism of the EU for the sphere of research and development. The authors of the brochure were aware of this situation and thus attempted to show, in an attractive yet objective manner, what projects can be financed within the framework of European programmes for R&D and, using the examples of successful small and medium-sized companies from the CR and abroad, to demonstrate that size isn't everything and that "small" does not have to be an impediment. The brochure explained to its readers what the Czech assessors are looking for from applicants and what a Czech company should take into consideration when weighing up whether to participate in such programmes. The assessors give their view of what a project application should look like, and the same chapter contains a few tips on how to find the right project partner, etc.

CEBRE is using every opportunity available to inform Czech businesspeople of EU issues which have or might have an impact on their activities. In this respect it welcomes the initiative of the Office of the Government to support projects in the forms of grants within the framework of the government policy on the provision of information on European issues in the CR.

Ondřej Hradil, CEBRE - Czech Business Representation

A project organised by the Economic Chamber of the CR - "Bringing the European Union closer to entrepreneurs"

As part of the campaign being run by the Office of the Government entitled Conception on Information regarding European Matters in the CR, the Economic Chamber of the CR has been awarded a grant for the project "Bringing the European Union closer to entrepreneurs". The aim of the project is to acquaint representatives of the Czech business sector, above all small and medium-sized enterprises, with the possibilities which are offered within the framework of the European Economic Area.

Workshops were held in five regions of the CR: Zlín, České Budějovice, Prague, Opava and Ústí nad Labem, and focused on three main topics: the single market, indirect taxes, and the future of the EU. The workshops were deliberately conceived in such a way that representatives of Czech companies were not simply given information and facts, but had ample opportunity to ask questions regarding topics of interest to them. On the basis of this, each block ended with a discussion in which the entrepreneurs interactively gave

The project had three outputs:

- specialist workshops organised in the regions
- specialist short-term attachments in Brussels, the city where most EU bodies have their headquarters,
- a specialist brochure summarising the entire issue.

their opinion on the issue under consideration and exchanged their experiences.

Almost 500 people participated at the workshops, mainly from small and medium-sized enterprises.

Also as part of the project and with the cooperation of the Czech Business Representation CEBRE two study trips to Brussels were organised for 30 people. In Brussels entrepreneurs could see for themselves how the institutions and bodies of the EU operate and hold discussions with the specialists who represent them through the good offices of CEBRE and the regional representations. Discussions were held at the Permanent Representation of the CR at the EU, at the European Commission, the European Parliament, the Council of the EU, at CEBRE, and also with representatives of the regional boards operating in Brussels.

Ondřej Hradil, CEBRE
Czech Business Representation



Finance from the EU and Czech companies

Support for regional development and small and medium-sized enterprises is one of the fundamental policies of the European Union. In autumn of last year a survey organised by CEBRE and the portal BusinessInfo.cz examined how Czech businesspeople perceive the sphere of EU funds and programmes. The aim was to chart the knowledge and experience of Czech companies with EU funds and programmes and their opinions regarding their future form. It is interesting to observe that companies would spontaneously allocate financial resources to those same spheres as the European Commission is attempting to promote in its Lisbon Strategy.

The survey was participated in by 333 mainly small and medium-sized companies. Respondents were mostly from the spheres of services, with just under a third being manufacturing companies and 15% providing consultancy in the sphere of EU funds and programmes. The remaining thirteen percent were commercial companies.

Without exception all companies expressed an interest in the possibility of receiving grants, while half of the companies questioned have already received grants. Companies report variable success in submitting project applications. We did not find any company which had been successful in 100% of cases. Companies stated that the main reason for failure when submitting a project application was that the money had already been used up because of the sheer quantity of applications, and that the budget was exhausted. The second most frequent reason for failing to receive a grant was, in the opinion of the companies questioned, lack of transparency in the selection of projects followed by poorly stipulated criteria for selection of successful projects.

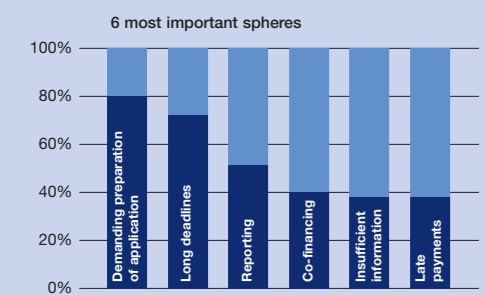
Overall Czech companies perceive the funds and programmes offered by the EU in a positive light. Two thirds of respondents stated that they are a necessary instrument for support of the regional and general economic development. Just under a third were of the opinion that these funds and programmes were beneficial, though only some of them. Companies above all appreciate that thanks to the funds and programmes of the European Union they can implement projects which they would otherwise not, or which they would implement, but on a smaller scale.



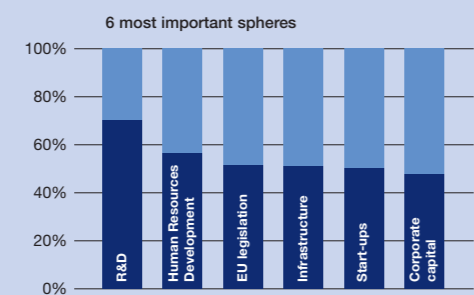
"It is important that Czech companies attain at the very least the same levels of success when availing themselves of the resources of these funds as their counterparts abroad. These factors, too, have contributed to the overall level of competitiveness of our companies. The Economic Chamber is very aware of this requirements and has prepared a project of grant consultation in the sphere of European funds and IT development entitled GetIT," says the president of the Economic Chamber of the CR, Jaromír Drábek.

In terms of a knowledge of the individual funds and programmes of the European Union, structural funds came out the clear winner over community programmes. More than half of respondents stated that they knew the Operating Programmes Industry and Enterprise and the Human Resources Development. There is slightly less awareness of the Joint Regional Operating Programme and the pre-accession programmes PHARE, ISPA and SAPARD. Of the community programme companies are most aware of programmes supporting the development of human resources and mobility, such as Leonardo, Socrates, etc. (30 %), and programmes in the sphere of research, development and innovation such as the 6th framework programme or EUREKA (22 %). Knowledge of other programmes tends to be negligible.

WHAT ARE THE GREATEST PROBLEMS YOU HAVE ENCOUNTERED WHEN PREPARING OR IMPLEMENTING A PROJECT FINANCED FROM EU PROGRAMMES?



IN YOUR OPINION AT WHAT SPHERES SHOULD FINANCE FROM EUROPEAN UNION FUNDS BE TARGETED?



Sources: CEBRE, BusinessInfo.cz

"Our experience shows that Czech companies now find their way around the structural funds without problem. However, unfortunately they have a tendency to forget that there exist other funds administered on a centralised basis, mostly by the European Commission itself. In quite a number of these funds you will search for applicants from the Czech Republic in vain, and frequently they do not even figure as partners," says Blanka Jakubcová, director of CEBRE.

The survey also gave rise to many recommendations regarding the form the system of funds and programmes of the European Union would take in the next programme term, i.e. 2007-2013. These recommendations relate not only to the structural funds but the community programmes. Businesspeople are emphatic on the need to stipulate clear rules of the game. The conditions of individual programmes should be known sufficiently in advance and should not be changed. Many respondents also agreed that the conditions for participation in the programmes must be as simple as possible. A telling example is the requirement on obligatory appendices, which anyway are drawn up by the state offices. A shortening of the project approval deadlines would also be appreciated. Regarding the current set-up of EU funds and programmes businesspeople criticise the limited resources aimed at the business sphere, the excessive emphasis on soft expenses, and problems with co-financing which occur above all in the case of small and medium-sized companies. A specific problem of the community programmes are the requirements for a minimum number of partners which have to come from various member countries.

Companies also gave their suggestions as to what spheres the support of the funds and programmes should be targeted on in the future. A clear priority is investment in research, development and innovation, which almost three quarters of companies were in favour of. More than half of the companies agree on the following spheres - human resources development, support for the investment made necessary by European Union legislation, construction of the infrastructure, and support for start-up companies.

Of the possible support for companies applying for grants from EU funds and programmes proposed, the greatest interest was in the targeted monitoring of current calls for the submission of projects and the possibility of a preliminary assessment of the suitability of EU programmes in the light of the project objectives involved. More than half of the managers questioned were in favour of these two possible forms of support. Company managers would also appreciate greater help for programme sponsors during the processing and preparation of project applications. Only a quarter of those questioned were interested in the services of external consultancy companies. A quarter of companies already have experience of cooperating with external consultancy companies on the preparation of a project, of which two thirds were satisfied with this cooperation.

Ondřej Hradil, CEBRE
Czech Business Representation

How small and medium-sized enterprises can use EU funds in their business activities.



The framework of the development of human potential

Early on there was surplus of workers in heavy industry and the metal-working industry in particular. However, the situation has turned around and there are now insufficient numbers of qualified workers in industry. In this respect EU funds can be of considerable assistance. However, programmes dealing with this issue are not being used. Their requirements are too vague, complex, say nothing, and their subsequent administration is drawn out, difficult and unclear. This is a very infrequently used opportunity which is restricted to the use of labour offices without a more significant effect for small and medium-sized companies, which meet statistical requirements. Despite the negative aspects referred to we would emphasise that this is one of the most important problematic areas.

Technological equipment

Associated with a change to the structure of production the need for a structure of production resources has changed. The original machine stock was and largely is obsolete. With the existing level of the machine stock SMEs are able to compete with their western colleagues only through the lower cost of the workforce, which is not the objective. In this sphere EU funds play an important role and are an important factor for comparing the technological base. The pre-accession PHARE funds played an important role in this respect, and the ensuing projects have now been partially implemented. SMEs acquired their first experience with EU funds here.

Innovation, research

The partial break-up of large production units also paralysed the cooperation of production with the research base, which also underwent large restructuring. After the takeover of parts of production by small and medium-sized companies an increased effort is to be seen at present for cooperation with the research base, because SMEs are aware that, without innovation of their business activities, they will not hold their own against the competition on the market, and innovation cannot be implemented without the appropriate cooperation with the research base. This is taking place rather unsteadily across the whole country. The barriers are above all a lack of knowledge of the possibilities of the research base for SMEs: the research base itself should take in initiatives in this respect. Here EU funds can play a very important role in ensuring that production is effective and top quality, as shown in a comparison of the price of human output, since this will cease to be the decisive factor of price competitiveness.

The location of production units

At the beginning production was located in large industrial estates. The buildings were and in many cases still are in a very poor state of repair. Moreover, they are not designed to meet the requirements of modern technology. Many small and medium-sized enterprises which are expanding use parts of these estates. They rent them or buy them and adapt the construction to their activities. Because of the restricted space available many suffer an ecological burden, getting rid of which

would be too expensive because of the lack of infrastructure, while modifications, repairs and refurbishment would again exceed the financial possibilities of the companies, which also have unclear relations under property law. SMEs are basing new production in green-field sites, often a more suitable option from a financial point of view. There is only limited assistance for the construction of new work premises or the renovation of old ones, and this is concentrated on development companies. These carry out construction work for the purposes of leasing, without discrimination in respect of tenants, which means that there is no cohesion between the constructions with technology and the subsequent logistics of production.

Financing

The issue of financing was again very variable over the years, and ranges from excessively available credit which did not require a sufficiently thought-through business plan, to real problems in taking out loans which has actually blocked the development of investments during this time. EU funds play a decisive role in this respect since with sufficient own financial sources the development of the SMEs would be continuous and EU structural funds would not be necessary. The development of SMEs goes on without structural funds, though too slowly for these companies to be competitive with the existing companies in the EU, and, given the possible speed of development based on a company's own sources of financing (loans have to be repaid and repayments put the brakes on development and growth), the difference is widening. The overriding purpose of EU funds is thus to speed up the development of SMEs and thus to allow for the elimination of the differences in the developmental level of SMEs, in order that competitiveness be possible without relying on a cheap workforce.

Organisational framework

As has been said, current small and medium-sized companies have grown from practically nothing. Their owners are people who were the foremen in large production units in the past and were not used to managing large companies. These companies are reaching a situation in which they require a change to current management practices in terms of the quality and reproducibility of the product, its commercial potential, the organisation of work in respect of productivity and safety, and above all personnel aspects emphasising the recruitment of new workers, their motivation, qualifications, an increase of qualifications within the framework of the company, including cooperation with universities, secondary schools and vocational training institutions with the aim of ensuring a highly qualified personnel according to requirements, which is unfortunately not the case at present.

Evaluation of experience with structural funds:

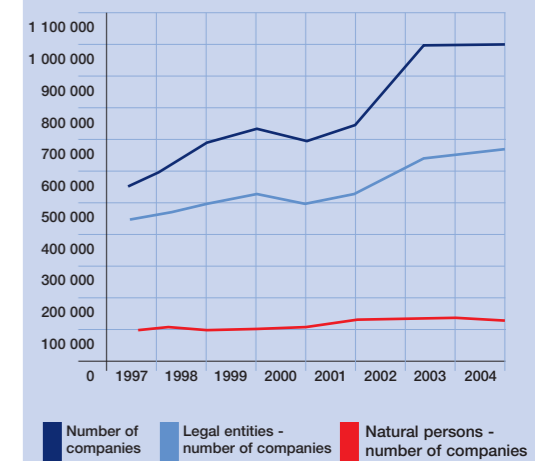
At present it is possible to assess the experience acquired by SMEs with the pre-structural funds (PHARE 2000, PHARE 2003) and with the structural funds just beginning.

The requirements are complex and unintelligible and lay too great an emphasis on human resources. The application documentation gives the impression that it was originally intended for investments of billions and is being used for the investment of SMEs in the order of millions of crowns. However, its complexity does not correspond to its original purposes. From this ensues a fundamental factor in respect of competitiveness, namely time. For example, the projects of PHARE 2000, which was announced half way through 2001, were completed at the beginning of 2003 (this is seen in statistics of investment costs). PHARE 2003 projects are now in the completion phase. The length of time is manifest in all parts of project implementation, beginning with the announcement (which often overruns the original estimates), the decisions reached on the result, the tender, the implementation - the method of administration. In the case of innovative projects linked with research the time factor is very unpleasant, since the effectiveness of the innovation is, amongst other factors, given by the speed with which it is introduced to the market.

On the contrary, the activities of the implementation agency Czechinvest deserve a very positive assessment, and the agency provided exemplary cooperation on project implementation.

Jiří Obračaj, Aleš Pustka,
Association of Small and Medium
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DEVELOPMENT OF THE NUMBER OF SMEs IN THE CR FROM 1997 TO 2004



News

Minister of Industry and Trade Milan Urban (Social Democrats) makes no attempt to hide his optimism regarding the investment by the South Korean automobile company Hyundai in the Czech Republic. According to Urban the South Korean concern should bring in CZK 23 billion to the Czech economy, and will provide jobs for 3,000 people. Urban gave these details on a discussion show on TV Prima.

At present 67 percent of Czechs are satisfied with the membership of the CR in the European Union, which is 13 percentage points up on the figure last autumn. This is indicated in a survey carried out in January by a consortium of agencies comprising Factum Invenio, STEM and Ivan Gabal, which the government commissioned as part of the European information campaign. Analysts agree that the disappointment of last year's unsuccessful referenda on the European Constitution in France and Holland has worn off and politicians have managed to attract citizens with promises of investment from European funds. "It could be described as moderate, cautious optimism," said Jan Hartl from the agency STEM.

President of the Czech Republic, Václav Klaus, appointed Jiří Havel the new vicepresident for the economy. He thus replaced Martin Jahn, who left the post at the end of last year. Since February 2006 he has been Member of the Board of Management and Chief Human Resources Officer of Škoda Auto, a.s. Jiří Havel is the former head of the National Property Fund. The new pilot of the Czech economy is a member of the Social Democrats, though he does not intend to stand as a candidate in this year's elections.

The era when people living in buildings with regulated rent paid significantly less than most people, who pay the market price for their accommodation, is slowly coming to an end. The Act on Rent was finally approved by Parliament. Rents will rise an average of 14.2 percent over four years. Owners of buildings can begin increasing rents from January 2007. From 2011 the level of rent will be decided by agreement between the landlord and tenant. Regulated rent applies to 750,000 apartments, which is approximately one fifth of the housing stock. The Act has yet to be approved by the Senate and signed by the president. The Act was pushed through Parliament by the governing coalition, and was opposed by the Civil Democrats and the Communists. It received 84 of the 165 votes present.

The level of unemployment over the last quarter of 2005 was 7.8 percent, 0.4 percent down on the last quarter of 2004. The number of unemployed persons in the last quarter of 2005 was thus 15,400 lower than in the last quarter of the previous year. Unemployment amongst men fell the most. There were 404,800 unemployed people, 229,300 of them women, which is 56.7 percent of the total figure. Most of the unemployed (71.9 percent) are persons with a secondary school education, but without their



THE SOUTH KOREAN CONCERN SHOULD BRING NEW JOBS FOR PEOPLE.



JIŘÍ HAVEL, THE NEW VICEPREZIDENT OF CZECH REPUBLIC FOR ECONOMY



MARTIN JAHN, CHIEF HUMAN RESOURCES OFFICER OF ŠKODA AUTO

baccalaureate, and with basic school, though the number of university graduates without jobs was also up on 2004. The number of people who have been unemployed for a year and more fell against the fourth quarter of 2004 by 3,100 to 216,100, though they still represented more than a half of all unemployed (53.4 percent). The drop in the number of entrepreneurs continued in the last quarter of 2005, by 20,100 to 758,800. The lowest level of unemployment in the last quarter of 2005 was, as usual, to be found in Prague, at 3.2 percent, and low figures were also recorded in the Pilsen and Hradec Králové regions. The highest figures were recorded in the Moravia Silesia region (13.2 percent) and the Ústí nad Labem region (15.1 percent).

Traian Urban

Pilsen regional office in Brussels



The Pilsen Region established its European Brussels-based office in January 2006, hosted by its partner region of East Midlands. Its aspiration is to become an efficient link between European institutions and the region. Raising the profile of the region, promoting its main objectives, providing information about relevant EU policies, especially in the preparatory phase of the new financial framework 2007-2013 - these are the office's essential targets. Furthermore, the European Office of the Pilsen Region in Brussels intends to promote the EU back in the region, explain the advantages of EU membership, and introduce local decision makers to European issues. Close cooperation with other regional representations (networking) and in particular with other Czech regions (common national interests) seems to be an efficient working method. The European Office of the Pilsen Region is the region's voice in Europe, which makes it clear that, despite the fact that 70% of national legislation originates in the EU, the EU does not reach decisions on its own and that the regions can have their say.

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IN DECEMBER 2005 THE EUROPEAN PARLIAMENT SUPPORTED PROPOSALS BY THE COMMISSION FOR THE HARMONISATION OF THE INCOME TAX BASE FOR LEGAL ENTITIES. AT THE SAME TIME IT WAS EMPHASISED THAT THE INTRODUCTION OF A CONSOLIDATED BASE FOR INCOME TAX "WILL NOT AN ANY WAY DAMAGE THE BASIC PREROGATIVES OF MEMBER COUNTRIES IN RESPECT OF TAX, ABOVE ALL THEIR RIGHT TO STIPULATE THE INTERNAL RATES OF CORPORATE INCOME TAX". AT PRESENT IT IS STILL JUST AN IDEA, WHICH AIMS TO ACHIEVE THE FOLLOWING:

- remove the barriers created by the various domestic regulations of individual countries;
- simplify administrative procedures, lighten the bureaucratic burden and the costs of attaining conformity;
- create the conditions of equal treatment for companies which have their registered office in various member countries
- remove the mirror problems of double taxation

The purpose of a joint consolidated corporate income tax base is the creation of a joint method of taxation on a European level for companies which are engaged in cross-border activities or which have registered offices in at least two members countries. The idea is to create a joint tax base in accordance with European regulations and to create a method of consolidation. A priority is to be the initiation of a pilot project of a tax system for small and medium-sized enterprises in the home country.

The anticipated positive effects of this plan have outweighed the presentation of a fractured tax system with Euro MPs, though the project, despite laying emphasis on the preservation of national sovereignty as regards the rate of tax, has a number of opponents. Nevertheless, intensive work on its next stages has been initiated. Let's try and get closer, at least partially, to the issue represented by this project in several random reflections which I will try to express in the following observations:

Observation 1 - The tax base and tax

Ireland and subsequently most of the newly acceding countries have already begun a trend to reduce corporate tax. This, which from the point of view of liberal economic theories is a measure stimulating growth, is considered by several European circles to be tax dumping or damaging tax competition. However, given the differing structure of the tax base the nominal value of the tax in itself tells us almost nothing.

Let's look at a very simplified example of the conditions of economic (investment) activities in two hypothetical countries. In both cases these activities have the same input values:

- total investment of 1,200; annual wage costs of 150; forecast annual revenues 500.
- the national tax and other legislation of both countries is stipulated as follows:
 - 1) in country X this investment is amortised over 12 years, and corporate income tax is 30%;
 - 2) in country Y amortisation takes place over 6 years, with tax set at 15%.

The harmonisation of income tax on legal entities in the EU

Country	X	Y
Annual revenue	500	500
Amortisation	100	200
Wage costs	150	150
Tax base	250	150
Tax	75	22.5
Net profits	175	127.5
Period of amortisation	1.8	1.5

Even this school textbook example reveals what a significant role a single cost item can have in which the intervention of the state on the tax base is manifest. In this case the national tax legislation sets the speed of amortisation. The result is that although after-tax profits in country Y are 27% lower despite half the rate of tax, for the investor what is an indispensable indicator, i.e. the amortisation period, i.e. the speed of the retroactive acquisition of investment capital (expressed by the relationship: investment/profits after tax + amortisation) is 20% faster in country Y than in country X.

This example hints at the issue of amortisation of investment only from the point of view of different speeds of amortisation. However, real problems begin with the various definitions of investment, the tax distinction between tangible and intangible investments, the various method of evaluating adjustments, refurbishment and technical improvements, and the differences of book and tax amortisation, etc. However, a whole host of other costs are subject to state intervention - the creation of reserves, amortisation of bad debts, etc., etc.

Observation 2 - Tax legislation in the CR

Czech tax law requires urgent correction. Since the hectic creation of a tax system in 1992, there has been no re-codification of any tax law carried out (with the exception of VAT in 2004). Dozens of amendments, modifications and additions resulted in a complete infestation and confusion of practically all tax legislation, especially one of the most important, namely the Income Tax Act. The result is an unequal status amongst economic subjects, which results in a division into those companies which can afford quality tax advisory services, and those which are obliged to wade through the sea of tax regulation on their own. This situation is the most marked in small and medium-sized enterprises in comparison with the activities of the large, economically more powerful companies. The second negative impact is that tax legislation does not even hold out the possibility to SMEs of simply and effectively operating on a local or regional level and thus playing their main role as carrier of the tertiary sphere and employment, without being confronted by bureaucratic legislation.

From this point of view the project for the harmonisation of the corporate tax base, the aim of which is to create a unified European-wide transparent environment and a pilot project for SMEs, is unquestionably attractive.

Observation 3 Tax harmonisation - risks and policy

Tax, as well as its fiscal function, also plays the role of an important instrument for indirect control in European

economies. In practice this involves extraordinarily complicated and diverse problems. The objectives, forms and extent of assistance and possible restrictions in the form of tax incentives or disincentives are very different according to individual countries: they are created on the basis of long-term and short-term priorities, the fiscal situation, the social-economic situation, forecast economic effects, the customs and continuity of the legislation in question and links to other economic and social systems covered by legislation, etc. etc.

EU tax harmonisation up until now has focussed on indirect tax. There should be no doubt that this process was extraordinarily demanding, as shown by the last meeting in January on VAT. Nevertheless, this is a mono-cultural tax modification. The plan to create a joint tax base in the EU is more a multi-disciplinary project, with a high risk of insufficient sensitivity to the variety of levels of national economies and other internal factors impacting on the tax base in individual member countries. Underestimating these specificities could result in the entire process becoming counter-productive.

Observation 4 - Challenge

The observations offered are in no way intended to disparage this project, whose positive aspects are unquestionable. In order to find the optimum solution and general consensus it is absolutely essential that concrete harmonisation steps be very carefully assessed in the light of the specific conditions of each member country. It would be useful to simulate the consequences of the proposed legislation in individual countries in order to ensure that every decision, even the negative ones, are correct.

However, I regard it as absolutely fundamental to commence specialist discussions without delay on this issue on a national and international level in the business sphere, and not to leave the entire process to the professional and political apparatus of the EU and government representations.

BY THE TIME A DIRECTIVE ON A JOINT CONSOLIDATED CORPORATE TAX BASE IS APPROVED, IT WILL BE TOO LATE!

Tomáš Barták,
Confederation of Industry
of the Czech Republic





Economic Chamber of the Czech Republic (ECCR)

The Economic Chamber of the Czech Republic is the self-governance institution in the Czech Republic. Within its structure it embraces more than 60 active district and regional chambers as well as 70 professional associations covering the entire territory of the Czech Republic and the entire scale of enterprises, from the largest to the smallest. This network ensures daily contact with the entrepreneurs, monitoring of their interests, and efficient representation vis-à-vis the Czech Government. The ECCR provides customs and certification services, legal and legislative services as well as representative and information services. It plays an important role in supporting exports, European integration, and SMEs. Its Court of Arbitration resolves commercial disputes relating to foreign and domestic trade.

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The Confederation of Employers' and Entrepreneurs' Associations of the Czech Republic is an independent, voluntary and open lobby group promoting and coordinating entrepreneurial, employers' and professional interests in negotiations with Parliament, Government, public administration and Trade Unions. At present the organization has the following members: The Association of Entrepreneurs of the Czech Republic, The Union of Employers' Associations of the Czech Republic, The Union of Agriculture of the Czech Republic, The Association of Textile, Clothing and Leather Industries, The Association of Building Entrepreneurs of the Czech Republic, The Union of the Czech and Moravian Producer Cooperatives and The Employers' Union of Mining and Oil Industries.

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The Confederation of Industry of the Czech Republic is a non-governmental, voluntary federation of employers and entrepreneurs in the Czech Republic. It represents and defends the interests of employers in the sphere of social policy during tripartite negotiations with the Government and Trade Unions. It strives to define, support and assert its members' interests in order to achieve prosperity and favorable business environment. It also provides consultation and information services for its members that focus on international relations, trade opportunities, production cooperation, legislation, collective bargaining, European integration, education and training. It is a full member of the International Organization of Employers (UNICE).

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- Protects the interests of Czech business community vis à vis the EU institutions
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